



# City of Houston

Annise D. Parker  
City Controller

## City-Wide Accounts Receivable and Billings Internal Audit

Municipal Courts - Administration  
Department

Report No. 04-39



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

ANNISE D. PARKER

December 2, 2004

The Honorable Bill White, Mayor  
City of Houston, Texas

SUBJECT: City-Wide Accounts Receivable and Billings Internal Audit  
Municipal Courts Administration Department (Report No. 04-39)

Dear Mayor White:

In accordance with the City's contract with Jefferson Wells International (JWI), JWI has completed an Accounts Receivable and Billings Internal Audit pertaining to the Municipal Courts Administration Department (Department). The purpose of the audit was to assist management with an assessment of the adequacy and effectiveness of the internal controls and reporting related to the City's accounts receivable and billing processes. Additionally, the audit determined if the Department has developed and implemented written accounts receivable policies and procedures which address the requirements of Executive Order No. 1-38 (Accounts Receivable Policy).

The report, attached for your review, did not note any high-risk issues and stated that the accounting for recognizing receivables and an allowance has recently changed pursuant to recognizing receivables from issued citations. Draft copies of the matters contained in the report were provided to Department officials. The views of the responsible officials are appended to the report as Exhibit A.

We appreciate the cooperation extended to the JWI auditors by Department personnel during the course of the engagement.

Respectfully submitted,

Annise D. Parker  
City Controller

xc: City Council Members  
Anthony Hall, Chief Administrative Officer  
Michael Moore, Chief of Staff, Mayor's Office  
Barbara Sudhoff, Director, Municipal Courts Administration Department  
Judy Gray Johnson, Director, Finance and Administration Department

October 1, 2004

Ms. Annise D. Parker  
City Controller  
City of Houston  
901 Bagby, 8<sup>th</sup> Floor  
Houston, TX 77002

Dear Controller Parker:

We have completed the internal audit of the Accounts Receivable and Billings for the Municipal Courts Administration Department (Department) as outlined in our engagement letter dated October 10, 2003, under Contract No. 51783. This report documents our final report for the Department. A report summarizing significant issues identified across the departments will be issued at the conclusion of the City-wide engagement when the internal audit procedures have been completed for all City departments.

Our observations and recommendations noted during the performance of the procedures are presented in this report and views of responsible officials are attached as Exhibit A. Our procedures, which accomplished the project objectives, were performed through the February 3, 2004 and have not been updated since that date. Our observations included in this report are the only matters that came to our attention, based on the procedures performed.

Jefferson Wells International is pleased to have assisted the City Controller and we appreciate the cooperation received during this engagement from the Municipal Courts Administration Department as well as your office.

This report is intended solely for the information and use of the City, the Department and the City Controller's Office, and is not intended to be used for any other purpose.





## Project Scope & Objectives

### Scope:

This internal audit was performed to assist City management with an assessment of the adequacy and effectiveness of the internal controls and reporting related to the City's accounts receivable and billing processes. The scope of this report is the revenues and receivables managed by the Municipal Courts Administration Department.

### Objectives:

- ✍ Determine whether all receivables managed by the Department are recorded in the City's financial records.
- ✍ Determine whether there are receivables that are not recorded in the City's books.
- ✍ Review and evaluate the type of records that are maintained to support the receivables.
- ✍ Determine what steps, if any, are being performed to collect the outstanding receivables.
- ✍ Determine whether billing systems are in place to bill timely those persons/entities that may owe the City monies.
- ✍ Determine whether the Department has developed and implemented written accounts receivable policies and procedures, which address the requirements of Executive Order No. 1-38 (Account Receivable Policy).



## Procedures Performed

- ✍ Requested and gathered pertinent documents related to the Department's revenue sources, including written accounts receivable procedures applicable to each of its sources of revenue.
- ✍ Compiled a preliminary list of revenue sources for the Department.
- ✍ Identified and scheduled interviews with key financial personnel for the Department.
- ✍ Interviewed key Departmental personnel and obtained an understanding of the Department's process, as applicable, related to:
  - ✍ Capturing each transaction that results in a source of revenue/receivable;
  - ✍ Timing of revenue/receivable recognition;
  - ✍ All applicable accounting entries;
  - ✍ Billing systems for monies owed the City; and
  - ✍ Monitoring and collection of accounts receivable, including supporting documentation.
- ✍ As applicable, for each of the Department's revenue/receivable source that involves the generation of a bill for monies owed the City:
  - ✍ Traced each receivable source to the City's financial system;
  - ✍ Determined whether the applicable billing system had been designed to mitigate the risk of bills not being generated on a timely basis; and
  - ✍ Determined whether the described billing system is in-place and operating effectively.



## Procedures Performed (continued)

- ✍ As applicable, reviewed the Department's written policies and procedures and determined compliance with Executive Order No. 1-38, Accounts Receivable Policy, specific to:
  - ✍ Appropriate Authorization;
  - ✍ Cost Recovery;
  - ✍ Transaction Processing;
  - ✍ Physical Safeguards;
  - ✍ Substantiation and Evaluation;
  - ✍ Determination of net realizable value;
  - ✍ Identification of accounts to be recommended to the Mayor and City Council for write-off approval;
  - ✍ Determination of appropriate allowance for doubtful accounts;
  - ✍ Preparation of accounts receivable aging analysis, aged cash receipts, and cash collections percentage reports; and
  - ✍ The use of the reports mentioned above to evaluate collectibility, target accounts requiring more aggressive collection efforts, and target accounts that yield better collections results.



## Revenues & Receivables Overview

### Background

- ✦ The Municipal Courts Administration Department collects the variety of fees and revenues handled by municipal court, which includes:
  - ✦ **Traffic and Parking Fines** – Adjudicated and administrative fines relating to violations of the State and City of Houston’s motor vehicle and parking statutes and ordinances.
  - ✦ **Point of Service Fees** – These are cost-based fees for materials and services provided by the Department to petitioners.
  - ✦ **Administrative and/or Mandatory Court Fees** – These fees imposed by operation of law or by the discretion of an administrative officer of the court, relating to adjudicated matters within the Municipal Court’s jurisdiction.
- ✦ Generally, fines and adjudicated monetary penalties are for violations of law, while fees are charges for the cost of services rendered by the court. The largest revenue streams are traffic and parking fines and fees.

### Summary

- ✦ The City’s financial system generally includes accounting for the Department’s receivables, however non-sufficient fund (NSF) returned checks are not reflected within the City’s financial system.
- ✦ The accounting for recognizing receivables and an allowance has recently changed pursuant to recognizing receivables from issued citations.
- ✦ Collection efforts could be improved on outstanding service receivable balances.





## Revenues & Receivables Overview

	<u>2004 Annual Budget</u>	<u>Receivables are Generated</u>	<u>Receivables are Recorded</u>	<u>Accounting is in Accordance with GAAP</u>
<b>Revenues:</b>				
✍ Traffic fines and fees	\$ 26,141,837	X	†	X
✍ Parking fines and fees	7,789,201	X	X	X
✍ Court fines and fees	5,179,131	No	n/a	X
✍ Other fines and fees	6,311,816	No	n/a	X
✍ Metered parking revenue	2,658,915	X	X	X
✍ Garage parking revenue	1,128,725	No	n/a	X
✍ Driver safety administration fees	1,015,332	X	X	X
✍ Bond and forfeiture fees	310,143	No	n/a	X
✍ Miscellaneous fees	1,592,103	No	n/a	X

### Definition of Terms:

- ✍ **X** – Represents a Yes answer related to determining if each identified revenue stream results in a receivable.
- ✍ **†** – Receivable is recorded when the amount is determinable.
- ✍ **Receivables** – The resulting asset when revenue has been earned but no payment is made at the point the service or good is provided (normally the result of a bill being generated).





## Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Appropriate Authorization	<ul style="list-style-type: none"> <li>☒ All fines and fees are defined and authorized by state law or through City Ordinance.</li> <li>☒ Responsibilities and authorizations for the recording of receivables is defined, communicated and understood.</li> <li>☒ The Department does not have formal policies and procedures as required by the Executive Order.</li> </ul>	<ul style="list-style-type: none"> <li>☒ Due to the materiality of receivables, the Department should establish policies and procedures as required by the Executive Order. This risk is somewhat mitigated with the observed segregation of duties (see physical safeguards later in this report)</li> </ul>	Moderate
Cost Recovery	<ul style="list-style-type: none"> <li>☒ The Department recovers the cost of collection through late payment fines.</li> <li>☒ The Department utilizes an outside collection firm to assist with recovering amounts that are over 30 days past the date the court adjudicated the claim.</li> <li>☒ The Department is updating its agreement with the outside collection firm pursuant to a new state law providing an additional fee to cover the collection firm's costs.</li> </ul>	<ul style="list-style-type: none"> <li>☒ None noted.</li> </ul>	Low



## Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Transaction Processing	<p><b><i>Citation or Fine Related Revenue</i></b></p> <ul style="list-style-type: none"> <li><del>☞</del> Citations are uniquely numbered, time and date stamped and remitted daily for processing.</li> <li><del>☞</del> A log is maintained of citations received, which is reconciled with those processed the day before.</li> <li><del>☞</del> The system is set to apply appropriate fines and fees if violations are not paid when due.</li> <li><del>☞</del> Court orders finally establishing the amounts due are entered into the system – which finally establishes the legal receivable.</li> <li><del>☞</del> Payments are entered into the system at the time of payment.</li> <li><del>☞</del> Daily, payments processed in the Department’s system are reconciled to the bank deposit.</li> <li><del>☞</del> Monthly, revenue recorded through the Department’s system is reconciled with the City’s financial system.</li> </ul> <p><b><i>Other Revenue</i></b></p> <ul style="list-style-type: none"> <li><del>☞</del> Recorded on a cash basis as the service is being performed.</li> <li><del>☞</del> There are systems for tracking services provided and funds received, which are then reconciled to the bank deposits.</li> </ul>	<ul style="list-style-type: none"> <li><del>☞</del> The Department’s receivable accounting is complicated with a new ruling that receivables can not be recognized until supported by a court order establishing the receivable amount. This is a change from recognizing the receivable when the citation was issued, based on established fees. The Department represents that the new technology system should support this change in accounting standards.</li> <li><del>☞</del> No control issues noted.</li> </ul>	Low



## Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Physical Safeguards	<ul style="list-style-type: none"> <li>☞ Duties are segregated among the persons entering citation data, reconciling completeness of citations entered, processing payments and performing collection activities.</li> <li>☞ Payment processing is physically separated with access limited to the area where cash is handled.</li> <li>☞ Daily reconciliation is performed of violations processed.</li> <li>☞ Daily reconciliation is performed of payments processed and cash deposited.</li> <li>☞ Daily reconciliation of all revenues processed.</li> </ul>	☞ None noted.	Low
Substantiation and Evaluation	<p>Each receivable is substantiated with a citation or court ruling. Each violation has a unique case identification number and undergoes a process for substantiation should the individual plea not-guilty or simply not pay.</p> <p>Pursuant to legal rulings received by the Department, the receivable is substantiated only when the unpaid citation/case is adjudicated through the court with a court order substantiating the determine amount of fine and fees due.</p>	☞ None noted.	Low



## Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Determination of Net Realizable Value <i>(Minimum of Annually)</i>	<ul style="list-style-type: none"> <li>✍️ Valuation of realizable value is determined by having the court adjudicate the case and issue and order as to the amount of fines and fees due.</li> <li>✍️ The Department actively collects past due adjudicated cases for 30 days and then uses an outside collection firm.</li> <li>✍️ Final determination of realizable value is accomplished when the amount is paid.</li> </ul>	<ul style="list-style-type: none"> <li>✍️ The Department's current system does not adequately support the reporting and analysis needed. The new system is expected to remediate this issue.</li> <li>✍️ The Department has an extensive list of returned check receivables due to insufficient funds which dates back to 1980. This list is not reconciled to the general ledger.</li> <li>✍️ Further, collection efforts could be improved over this listing to enable valuation.</li> </ul>	Moderate
Identification of Accounts to be Written-off / Determination of an Appropriate Allowance for Doubtful Accounts <i>(Minimum Annually)</i>	<ul style="list-style-type: none"> <li>✍️ An allowance for doubtful accounts is recorded in the financial system based on the historical percentage of collections.</li> <li>✍️ Write-offs are not made due to the legal nature of the receivable.</li> </ul>	<ul style="list-style-type: none"> <li>✍️ See comments regarding returned check receivables above.</li> </ul>	Low



## Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Preparation of Reports & Analysis	<ul style="list-style-type: none"> <li><del>☞</del> The Department is in the process of implementing a new technology system which should improve reporting ability related to monitoring the multiple stages of receivables.</li> <li><del>☞</del> Currently reports are generated both daily and monthly to reconcile daily transaction processing as well as monthly activity.</li> </ul>	<ul style="list-style-type: none"> <li><del>☞</del> Aging reports are needed.</li> <li><del>☞</del> Improved trend reports on recovered receivables are needed.</li> </ul>	Moderate
Use of Reports to Evaluate and Improve Collections	<ul style="list-style-type: none"> <li><del>☞</del> The Department is in the process of implementing new technology applications which should enhance reporting to better achieve this objective.</li> <li><del>☞</del> Reports are utilized from the current system to assess collection activity and identify accounts to be turned over to the outside collection firm.</li> </ul>	<ul style="list-style-type: none"> <li><del>☞</del> See recommendations above related to reporting.</li> </ul>	Moderate

# EXHIBIT A



## CITY OF HOUSTON

Municipal Courts Administration  
Department

## Interoffice

Correspondence  
BS-S-20249

To: Annise D. Parker  
City Controller



From: Barbara R. Sudhoff, Director  
Municipal Courts Administration

Date: October 21, 2004

Subject: ACCOUNTS RECEIVABLES AUDIT

This memorandum is in response to Jefferson Wells International's internal audit of the Accounts Receivables and Billings for the Municipal Courts Administration Department.

Based on the recent opinion of the Attorney General of the State of Texas, citations issued by the City of Houston are not deemed as Receivables until a judgment has been issued on the case. Since the majority of our revenues are derived from the issuance of citations, the amount of A/R's is somewhat small compared to the amount of fines that go unpaid.

The Municipal Courts Administration Department (MCAD) expends most of its resources trying to improve the collections of outstanding citations since there is a greater rate of return. That is not to say that MCAD has neglected trying to collect on Accounts Receivables in the past or has not looked to improve collections in this area. MCAD has taken steps to address concerns highlighted in this report. Most notably, the implementation of the courts' new integrated computer system (ICMS) will enable the courts to make significant gains in reducing these amounts. ICMS will provide better reporting, store and update the most current information on defendants, and provide multiple personnel the ease of access to the information needed to concentrate our efforts and resources on those cases we have the best chance of collecting.

*Views of Responsible  
Officials*

The new system will make it easier to reinstate offense of cases that have been paid giving us more leverage to collect on bad checks. The most current data on the defendant will lessen the number of incorrect addresses and phone numbers Collections have to deal with.

In regards to the GASB 33 requirement of reporting A/R's, as discussed before, our current system does not allow us to generate an amount owed on judgment cases. With the implementation of the new system, we will be able to report this amount as required.

BS:OA:RP:mw

S. R. ELLIOTT  
NOV 2 2004